ACC501 SHORT NOTES

Capital Market Line : Efficient set, of all portfolios, that provides the investor with the best possible investment opportunities when a risk-free asset is available. It describes the equilibrium risk-return relationship for efficient portfolios, where the expected return is a function of the risk-free interest rate, the expected market risk premium, and the proportionate risk of the efficient portfolio to the risk of the market portfolio.

Carrying costs : Costs of holding a commodity from one time period to another.

Cash Flow : Payment (cash outflow) or receipt (cash inflow) of money.

Certificate of deposit : In this context, a marketable fixed rate debt instrument issued by a bank in exchange for a deposit of funds.

Compound Interest : Interest calculated each period on the principal amount and on any interest earned on the investment up to that point.

Compound Option : Option on an option (e. g. an option to buy an option).

Conglomerate Takeover : Takeover of a target company in an unrelated type of business.

Consistency Principle : In applying the NPV model, the net cash flows in the numerator should be defined and measured in a way that is consistent with the measurement of the discount rate in the denominator.

Constant Chain of Replacement Assumption : May be used to evaluate projects of unequal lives; in this case, each project is assumed to be replaced at the end of its economic life by an identical project.

Consumer Credit : Credit extended to individuals by suppliers of goods and services, or by financial institutions through credit cards.

Contingent Claim : Asset whose value depends on the value of some other asset.

Conversion Ratio : Relationship that determines how many ordinary shares will be received in exchange for each convertible or converting security when the conversion occurs.

Corporate Raiders : Aggressive corporate or individual investors who purchase a company's shares with the intention of achieving a controlling interest and replacing the existing management.

Cost of Capital : Minimum rate of return needed to compensate suppliers of capital for committing resources to an investment.

Coupons : Fixed interest payments made on bonds and debentures.

Covenant : Provision in a loan agreement to protect lenders' interests by requiring certain actions to be taken and others refrained from.

Credit Foncier Loan : Type of load that involves regular repayments which include principal and interest.

Credit Risk : Possibility of loss because a party fails to meet its obligations.

Cross Rates : Exchange rate between two currencies derived from the exchange rates between the currencies and a third currency.

Cum Dividend Period : Period during which the purchaser of a share is qualified to receive a previously announced dividend. The cum dividend period ends on the ex-dividend date.

Cum Rights : When shares are traded cum rights the buyer is entitled to participate in the forthcoming rights issue.

Currency Swap :	Simultaneous borrowing and lending operation in which two parties initially exchange specific amounts of two currencies at the spot rate. Interest payments in the two currencies are also exchanged and the parties agree to reverse the initial exchange after a fixed term at a fixed exchange rate.
Current Assets :	Cash, inventory, accounts receivable and other assets that will normally be converted into cash within a year.
Current Liabilities :	Debt or other obligations due for payment within a year.
Drawee :	The party upon whom an order, draft, check or bill of exchange is drawn.
Equivalent Annual Value Method :	Involves calculating the annual cash flow of an annuity that has the same life as the project and whose present value equals the net present value of the project.
Eurobond :	Medium to long-term international bearer security sold in countries other than the country of the currency in which the bond is denominated.
Euronote :	Short-term note sold in countries other than the country of the currency in which it is denominated.
Event Study :	Research method that analysis the behavior of a security's price around the time of a significant even such as the public announcement of the company's profit.
Exchange Risk :	Variability of an entity's value that is due to changes in exchange rates.
Ex-Dividend Date :	The date on which a share begins trading ex-dividend. A share purchases ex-dividend does not include a right to the forthcoming dividend payment.
Exercise Price :	Fixed Price at which an underlying asset can be traded, pursuant to the terms of an option contract; also known as strike price.

Expetations Theory : Of the term structure is that interest rates are set such that investors in bonds or other debt securities can expect, on average, to achieve the same return over any future period, regardless of the security in which they invest.

Ex-rights Date : Date on which a share begins trading ex-rights. After this date a share does not have attached to it the right to purchase any additional share(s) on the subscription date.

Face Value : Sum promised to be paid in the future on a debt security, such as a promissory note or a bill of exchange.

Factor : Financier who provides funds on the security of the borrower's accounts receivable.

Factoring : Sale of a company's accounts receivable at a discount to a financial institution.

Factoring with Recourse : Factoring (or invoice discounting) agreement under which the factor is reimbursed by the selling company if the debtor defaults.

Finance Lease : Long-term non-cancellable lease that effectively transfers the risks and benefits of ownership of an asset from the lessor to the lessee.

Financial Contract : Arrangement, agreement or investment that produces cash flows.

Financial Distress : Situation where a company's financial obligations cannot be met, or can be met only with difficulty.

Financial Intermediary : Institution that acts as a principal in accepting funds from depositors and lending them to borrowers.

Floating-Rate Note : Debt security whose interest rate is adjusted periodically in line with changes in a specified reference rate.

Floor-Plan Finance : Loan, usually made by a wholesaler to a retailer, that finances an inventory of durable goods such as motor vehicle. Also known as wholesale finance.

Foreign Bond :	Bond issued outside the borrower's country and denominated in the currency of the country in which it is issued.
Forward Margin :	Difference between spot and forward rates.
Forward Rate :	Exchange rate that is established now but with payment and delivery to occur at a specified future date.
Franked Dividend :	Dividend that carries a credit for income tax paid by the company.
Franking Premium :	That part of the return on shares or a share market index which is due to tax credits associated with franked Dividends.
Full Service Factoring :	Factoring agreement under which the factor manages the company's debtors.
Future Sum :	Amount to which a present sum, such as a principal, will grow (accumulate) at a future date, through operation of interest.
Future Value :	The value at a future date of principal invested now at either a simple or compound rate.
Fully Drawn Bill Facility :	Bill facility in which the borrower must issue bills so that the full agreed amount is borrowed for the period of the facility.
Hedgers :	Individuals and companies who enter into contracts in order to reduce risk.
Horizontal Takeover :	Takeover of a target company operating in the same line of business as the acquiring company.
Immunization :	Strategy designed to achieve a target sum of money at a future point in time, regardless of interest rate changes.
Independent Project :	One that may be accepted or rejected without affecting the acceptability of another project.

Indicator Rate :	Interest rate set and published by a lender from time to time and used as a base on which interest rates on individual loans are determined, usually by adding a margin.
Indifference Curve :	Curve showing a set of combinations such that an individual derives equal utility from (and thus is indifferent between) any combinations in the set.
Information Asymmetry :	Situation where all relevant information is not known by all interested parties. Typically, this involves company 'insiders' (managers) having more information about the company's prospects than 'outsider' (shareholders and lenders).
Information Efficiency :	Situation in which price accurately reflect available information; different categories of information give rise to different categories of information efficiency.
Initial Public Offering (IPO) :	A company's first offering of shares to the public.
Interbank Overnight Loan Rate :	The average interest rate on overnight loans (data collected during each day).
Interest-Only Loan :	Loan in which the borrower is required to make regular payments to cover interest accrued but is not required to make payments to reduce the principal. On the maturity date of the loan, the principal is repaid in a lump sum.
Limited Liability Partnership (Ltd. Liability Co.) :	A hybrid form of organization in which all partners enjoy limited liability for the business's debts. It combines the limited liability advantage of a corporation with the tax advantages of a partnership.
Line of Credit :	An informal arrangement in which a bank agrees to lend up to a specified maximum amount of funds during a designated period.
Liquidation :	Liquidation occurs when the assets of a division are sold off piecemeal, rather than as an operating entity.

Liquidity Ratios :	Ratios that show the relationship of a firm's cash and other current assets to its current liabilities.
Lockbox Plan :	A procedure used to speed up collections and reduce float through the use of post office boxes in payers' local areas.
Lessor :	In a lease contract, the party that owns the asset.
London Interbank Offered Rate :	Commonly used reference rate, derived daily from the interest rates at which major international banks in London will lend to each other.
Marginal Cost of Capital (MCC) :	The cost of obtaining another dollar of new capital; the weighted average cost of the last dollar of new capital raised.
Multinational Corporation (Global Corporation) :	A firm that operates in an integrated fashion in a number of countries.
Money Markets :	Then financial markets in which funds are borrowed or loaned for short periods (less than one year).
Multiple IRRs :	The situation where a project has two or more IRRs.
Mutually Exclusive Projects :	A set of projects where only one can be accepted.
Maintenance Lease :	Operating lease where the lessor is responsible for all maintenance and service of the leased asset.
Management Buyout :	Purchase of all of a company's issued shares by a group led by the company's management.
Net Present Value (NPV) :	The difference between the present value of the net cash flows from an investment discounted at the required rate of return, and the initials cash outlay on the investment.
Net Present Value (NPV) Method :	A method of ranking investment proposals using the NPV, which is equal to the present value of future net cash flows, discounted at the marginal cost of capital.
Net Working Capital (NWC) :	Current assets minus current liabilities.
Normal Growth (Constant	Growth which is expected to continue into the foreseeable

Growth) :	future at about the same rate as that of the economy as a whole; g is a constant.
Nominal Interest Rate (1) :	Quoted interest rate where interest is charged more frequently than the basis on which the interest rate is quoted. The interest rate actually used to calculate the interest charge is taken as a proportion of the quoted nominal rate.
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Note Issuance Facility :	Facility provided by one or more institutions that agree to underwrite issues of short-term notes by a borrower.
Interest Rate :	Rate of return on debt.
Interest Rate Parity :	Theory which states that a forward exchange rate is given by relative interest rates in the two currencies.
Interest Rate Swap :	Agreement between two parties to exchange interest payments for a specified period, related to an agreed principal amount. The most common type of interest swap involves an exchange of fixed interest payments for floating interest payments.
Intrinsic Value :	Value of an option if exercised immediately.
Investing Institution :	Accepts funds from the public and invests them in assets; includes superannuation funds, life insurance companies and unit trusts.
Investment Opportunities :	Opportunities to expand which are expected to be profitable but require further cash outlays to develop or maintain their value.
Invoice Discounting :	Factoring agreement in which the debtors of the company

	seeking finance are unaware of the existence of the factoring agreement.
Issue Costs :	Costs of raising new capital by issuing securities, including underwriting fees and legal, accounting and printing expenses incurred in preparing a prospectus or other offer documents. Also known as flotation Costs.
January Effect :	Observation that, on average, share prices increase in January more than in other months.
Joint Test Problem :	Problem that any test of market efficiency is simultaneously a test of some model of 'normal' asset pricing.
Limited Liability :	Legal concept which protects shareholders whose liability to meet a company's debts is limited to any amount unpaid on the shares they hold.
Liquidity Management :	Involves decisions about the composition and level of company's liquid assets.
Liquidity Premium (Risk Premium) Theory :	Of the term structure is that although future interest rates are determined by investors' expectations, investors require some reward (liquidity premium) to assume the increased risk of investing long term.
Log Price Relative :	Natural logarithm of the ratio of successive security prices. Implicitly, it is assumed that pric3es have grown (or decayed) in a continuous fashion between the two dates on which the prices are observed. Also known as a logarithmic rate of return and a continuous rate of return.
Margin Call :	Demand for extra funds to be deposited into trader's account.
Market Model :	Time series regression of an asset's returns on returns on the market index; it represents the empirical analogue of the capital asset pricing model.
Operating Lease :	A lease under which the lessor maintains and finances the

property; also called a service lease.

Out-Sourcing : The practice of purchasing components rather than making them in-house.

Over-the-Counter Market : A large collection of brokers and dealers, connected electronically by telephones and computers, that provides for trading in unlisted securities.

Option to defer : Right to begin an investment project at a later date.

Geometric Rate of Return : Rate of return between two dates, measured by the change in value divided by the earlier value; the average of a sequence of geometric rates of return is found by a process that resembles compounding.

Hadge Ratio : Ratio of the change in an option price that results from a change in the price of the underlying asset; also known as an option's delta.

Limited Partnership : A Hybrid form of organization consisting of general partners who have unlimited liability for the partnership's debts, and limited partners, whose liability is limited to the amount of their investment.

Liquid Asset : An asset that can be converted to cash quickly without having to reduce the asset's price very much.

Law of One Price : Principle maintaining that an asset's price in a given currency will be the same regardless of the currency in which the price is quoted.

Lessee : In a lease contract, the party using the asset.

Leveraged Buyout : Takeover of a company which is largely financed using borrowed funds; the remaining equity is privately held by a small group of investors.

Leveraged Lease : Finance lease where the lessor borrows most of the funds to acquire the asset.

Long Hedger :	Hedger who hedges by means of buying future contracts today.
Net Cash Flow :	The actual net cash, as opposed to accounting net income that a firm generates during some specified period.
Non-Debt Tax Shields :	Tax deductions for items such as investment tax credits and tax losses carried forward.
Opportunity Cost :	The return on the best alternative use of an asset, or the highest return that will not be earned if funds are invested in a particular project.
Organized Security Exchanges :	Formal organizations having tangible physical locations that conduct auction markets in designated("listed") securities. The two major U.S. stock exchanges are the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX).
Outflow :	A cash deposit, cost, or amount paid. Has a minus sign.
Option to Abandon :	Right to discontinue an investment project.
Preemptive Right :	A provision in the corporate charter or bylaws that gives common stockholders the right to purchase on a pro rata basis new issues of common stock (or convertible securities).
Primary Market :	A Market in which corporations raise capital by issuing new securities.
Publicly Owned Corporation :	A corporation that is owned by a relatively large number of individuals who are not actively involved in its management.
Partial Takeover :	Takeover in which a bidder seeks to acquire no more than part of a company's issued shares.
Payoff Structure :	Set of future cash flows.
P/E Effect :	Observation that even after adjusting for beta risk, there is a

	relationship between share returns and P/E ratios.
Poison Pill :	Strategic move by a company that may become a take over target to make its shares less attractive to an acquirer by increasing the cost of a take over (e.g. an issue of securities which will convert to shares if a takeover bid occurs).
Portfolio :	Combined holding of more than assets.
Present Value of a Contract :	The value today that is equivalent to the stream of cash flows promised in a financial contract.
Principal (or Principal Sum) :	Amount borrowed at the outset of a debt contract.
Promissory Note :	Short-term marketable debt security in which the borrower promises to pay a stated sum on a stated future date. Also known as one-name paper and commercial paper.
Proportional Bid :	Partial takeover bid to acquire a specified proportion of the shares held by each shareholder.
Put Option :	Right to sell an underlying asset at a fixed price.
Quick Ratio (Acid Test Ratio) :	This ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. This ratio is the indicator of a company's financial strength (or weakness).
Rate of Return :	Calculation that expresses the ratio of net cash inflows to cash outflows produced by a financial contract.
Real Interest Rate :	Interest rate after taking out the effects of inflation.
Rediscounting :	Selling a short-term debt security in the secondary market.
Residual Claim :	Claim to profit or assets that remain after the entitlements of all other interested parties have been met.
Risk Neutrality :	Situation in which investors are indifferent to risk; assets are therefore priced such that they are expected to yield the risk-free interest rate.
Stretching Accounts Payable :	The practice of deliberately paying late.

Safety Stock :	Additional inventory held when demand is uncertain, to reduce the probability of a stock out.
Secondary Market Transaction :	Purchase or sale of an existing security.
Semi-Strong-Form Efficiency :	All publicly available information is reflected in the security's current market price.
Size Effect :	Observation that returns on the shares of small capitalization companies appear to be too high compared to returns on other shares.
Speculators :	Individuals and companies who enter into contracts in order to profit from correctly anticipating price movements.
Spot Price :	Price of the commodity when the buyer pays immediately and the seller delivers immediately.
Spot Rate :	Rate for transactions for immediate delivery. In the case of foreign exchange, the spot rate is for settlement in 2 days.
Spread :	Long (bought) position in one maturity date, paired with a short (sold) position in another maturity date
Standard Deviation :	Square root of the variance.
Strong-Form Efficiency :	All information, whether public or private, is reflected in the security's current market price.
Synergy :	In takeovers, the situation where the performance and therefore the value of a combined entity exceeds those of the previously separate components.
Systematic/Market-Related/Non-Diversifiable Risk :	That component of total risk which is due to economy-wide factors.
Target (Optimal) Capital Structure :	The percentages of debt, preferred stock, and common equity that will maximize the firm's stock price.
Target Capital Structure :	The mix of debt, preferred stock, and common equity with

which the firm plans to raise capital.

Trade Credit : Debt arising from credit sales and recorded as an account receivable by the seller and as an account payable by the buyer.

Takeover : Acquisition of control of one company by another.

Time Value of Money : Principle that a dollar is worth more (less), the sooner (later) it is to be received, all other things being equal.

Treasury Stock : US term for a company's own shares that have been repurchased and held rather than cancelled.

Turn-of-the-Month Effect : Observation that, on average, share prices increase around the time of a new month beginning, more than at other times.

24-Hour Loans : Funds lent where the loan may be terminated or renegotiated after 7 days, on 24 hours' notice.

Uneven Cash Flow Stream : A series of cash flows in which the amount varies from one period to the next.

Unbiased Forward Rates : Theory which states that the forward rate is an unbiased predictor of the future spot rate.

Withholding Tax : In this context the tax deducted by a company from the dividend payable to a non-resident shareholder.

Zero Coupon Bond : A bond that pays no annual interest but is sold at a discount below par, thus providing compensation to investors in the form of capital appreciation.

Zero Growth Stock : A common stock whose future dividends are not expected to grow at all; that is g=0.

Market Value Ratios : A set of ratios that relate the firm's stock price to its earnings and book value per share.

Marketable Securities : Securities that can be sold on short notice.

Maturity Date : A specified date on which the par value of a bond must be repaid.

Merger :	The combination of two firms to form a single firm.
Market Opportunity Line :	Line that shows the combinations of current and future consumption that an individual can achieve from a given wealth level, using capital market transactions.
Market Portfolio :	Portfolio of all risky assets, weighted according to their market capitalization.
Marking-to-Market :	Process of adjusting traders' account balances to reflect changes in market prices.
Medium-Term Notes :	Bearer securities with an initial term to maturity of more than one year and issued continually.
Net Float :	The difference between our checkbook balance and the balance shown on the bank's books.
Nominal Interest Rate (2) :	Interest rate before taking out the effects of inflation.
Non-Bank Bill :	Any bill of exchange that has been neither accepted nor endorsed by a bank.
Non-Recourse Loan :	Type of loan used in leveraged leases where the lender has no recourse to the lesser in the event of default by the lessee.
Profit Maximization :	The maximization of the firm's net income
Profitability Ratios :	A group of ratios which show the combined effects of liquidity, asset management, and debts on operating results.
Perfect Capital Market :	Frictionless market in which there are no taxes, no transaction costs, all relevant information is costless available to all participants and all participants are price takers.
Post-Event Drift :	Observation that share returns display a trend after an event.
Principal-and-Interest Loan :	Loan repaid by a sequence of equal cash flows, each of

	which is sufficient to cover the interest accrued since the previous payment and to reduce the current balance owing. Therefore, the debt is extinguished when the sequence of cash flows is completed. Also known as a credit foncier loan.
Production Possibilities Curve :	Curve that displays the investment opportunities and outcomes available to the company; its shape therefore determines the combinations of current dividend, investment and future dividend that a company can achieve.
Treasurer :	An officer charged with receiving and disbursing funds. Treasurer normally plays role of a financial manager.
Residual Dividend Model :	A model in which the dividend paid is set equal to the actual earnings minus the amount of retained earnings necessary to finance the firm's optimal capital budget.
Risk-Averse Investor :	One who dislikes risk.
Secured Loan :	A loan backed by collateral, often inventories or receivables.
Statement of Retained Earnings :	A statement reporting how much of the firm's earnings were retained in the business rather than paid out in dividends. The figure for retained earnings that appears here is the sum of the annual retained earnings for each year of the firm's history.
Sale and Lease-Back Agreement :	Agreement in which a company sells an asset and then leases it back.
Sensitivity Analysis :	Analysis of the effect of changing one or more input variables to observe the effects on the results.
Short Hedger :	Hedger who hedges by means of selling futures on tracts today.
Short Selling :	Process of first entering into a contract to sell and later entering into a contract to buy.

Simple Interest :	Method of calculating interest in which, during the entire term of the loan, interest is computed on the original sum borrowed.
Term Structure of Interest Rates :	Relationship between interest rates and term to maturity for debt securities in the same risk class.
Tests for Return Predictability :	Research method designed to detect systematic patterns in asset prices.
Under reaction :	Biased response of a price to information in which the initial price movement can be expected to continue.
Weighted Average Cost of Capital (WACC) :	A weighted average of the component costs of debt, preferred stock, and common equity.
Working Capital :	A firm's investment in short-term assets--cash, marketable securities, inventory, and accounts receivable.
Working Capital Policy :	Basic policy decision regarding (1) target levels for each category of current assets and (2) how current assets will be financed.
Weak-form Efficiency :	Information contained in the past series of prices of a security is reflected in the security's current market price.
Operating Leverage :	The extent to which fixed costs are used in a firm's operations.
Operation Cash Flow :	That cash flow which arises from normal operations; the difference between sales revenues and cash operation expenses, after taxes on operation income.
Optimal Dividend Policy :	The dividend policy that strikes a balance between current dividends and future growth and maximizes the firm's stock price.
Optimal Capital Structure :	The percentages of debt, preferred stock, and common equity that will maximize the firm's stock price.
Open Account :	An arrangement under which goods or services are sold to a

customer on credit, but with no formal debt contract. Payment is due after an account is sent to the customer.

Option : The right but not the obligation to buy or sell underlying assets at a fixed price for a specified period.

Purchasing Power Parity : Theory which states that the exchange rate between two currencies adjusts to reflect the relative inflation rates in the two currencies.

Put Option on a Futures Contract : Option that gives the buyer the right to enter into the futures contract as a seller at a predetermined price.

Random Walk Hypothesis : That the time sequence of returns on shares conforms to the statistical concept of a 'random walk'; this includes the implication that the time sequence is random.

Residual Value : Disposal value of a project's assets less any dismantling and removal costs associated with the project's termination.

Revolving Credit Bill Facility : Bill facility in which the borrower can issue bills as required, up to the agreed limit.

Revolving Credit Facility : Loan for general business purposes secured against the inventory of the borrower.

Subordinated Debt : Debt which ranks below other debt in the event that a company is wound up.

Subscription Price : The price that must be paid to obtain a new share.

Syndicated Loan : Loan arranged by one or more lead banks, funded by a syndicate that usually includes other banks.

Undisclosed (or Confidential) Factoring : Factoring agreement whose existence is not disclosed to the company's debtors.

Unsubordinated Debt : Debt which has not been subordinated.

Unsystematic/Diversifiable Risk : That component of total risk which is unique to the firm and may be eliminated by diversification. Also know as Company specific or Asset specific Risk.

Value at Risk :	Worst loss possible under normal market conditions for a given time horizon.
Variable Interest Rate Loan :	Loan where the lender can change the interest rate charged, usually in line with movements in the general level of interest rates in the economy.
Variance :	Measure of variability; the mean of the squared deviations from the mean or expected value.
Vertical Takeover :	Takeover of a target company which is either a supplier of goods to, or a consumer of goods produced by, the acquiring company.
Warrant :	A long-term option to buy a stated number of shares of common stock at specified price.
Winner's Curse :	Problem that arises in bidding because the bidder who ‘wins’ is likely to be the one who most overestimates the value of the assets offered for sale.
Yield to Maturity (YTM) :	The rate of return earned on a bond if it is held to maturity.
Yield Curve :	Graph of yield to maturity against bond term at a given point in time.
Liquidity :	Refers to the ease and quickness with which assets can be converted to cash.
Shareholder's Equity :	Total assets minus total liabilities of an individual or company. For a company, also called owner's equity or net worth or net assets.
Price/Earning (P/E) Ratio :	The ratio of the price per share to earnings per share; shows the dollar amount investors will pay for $1 of current earnings.
Profit Margin on Sales :	This ratio measures income per dollar of sales; it is calculated by dividing net income by sales.

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Private Issue :	An issue of securities direct to chosen investors rather than the general public.
Financial Managers :	Financial managers plan, organize, direct, control and evaluate the operation of financial and accounting departments. They develop and implement the financial policies and systems of establishments. Financial managers establish performance standards and prepare various financial reports for senior management. They are employed in financial and accounting departments in companies throughout the private sector and in government.
Controller :	Someone who maintains and audits business accounts. Controller normally plays role of an accountant.
Risk-Neutral Investor :	One who neither likes nor dislikes risk.
Stock Repurchase :	A transaction in which a firm buys back shares of its own stock, thereby decreasing share outstanding, increasing EPS, and, often, increasing the stock price.
Stock Split :	An action taken by a firm to increase the number of share outstanding, such as doubling the number of share outstanding by giving each stockholder two new share for each one formerly held.
Stockholder Wealth Maximization :	The primary goal for management decision; considers the risk and timing associated with expected earnings per share in order to maximize the price of the firm's common stock.
Strategic Business Plan :	A long-run plan which outlines in broad terms the firm's basic strategy for the next 5 to 10 years.
Security Market Line :	Graphical representation of the capital asset pricing model.
Seed Capital :	Venture capitalist's first contribution towards the financing requirements of a start-up business.

Times-Interest-Earned (TIE) Ratio : A ratio that measures the firm's ability to meet its annual interest obligations calculated by dividing earnings before interest and taxes by interest charges: TIE = EBIT / I.

Total Assets Turnover Ratio : The ratio calculated by dividing sales by total assets.

Trade-Off Theory : Theory which proposes that companies have an optimal capital structure based on a trade-off between the benefits and costs of using debt.

Uncovered Interest Parity : Theory which states that the difference in interest rates between two countries is an unbiased predictor of the future change in the spot exchange rate. Also known as International Fisher Effect.

Par Value : The face value of a stock or bond.

Parent Company : A holding company; a firm which controls another firm by owning a large block of its stock.

Partnership : An unincorporated business owned by two or more persons.

Payback Period : The length of time required for an investment's net revenues to cover its cost.

Payment (PMT) : This term designates equal cash flows coming at regular intervals.

Payment Date : The date on which a firm actually mails dividend cheques.

Permanent Current Assets : Current assets that a firm must carry even at the trough of its cycles.

Perpetuity : A stream of equal payments expected to continue forever.

Precautionary Balance : A cash balance held in reserve for random, unforeseen fluctuations in cash inflow and outflows.

Present Value (PV) : The value today of a future cash flow or series of cash

	flows.
Prime Rate :	A published interest rate charged by commercial banks to large, strong borrowers.
Pecking Order Theory :	Theory which proposes that companies follow a hierarchy of financing sources in which internal funds are preferred and, if external funds are needed, borrowing is preferred to issuing riskier securities
Prospectus :	A document that, among other things, provides details of the company and the terms of the issue of securities which must be provided to potential investors by a company seeking to issue shares or other securities.
Chief Financial Officer (CFO) :	The CFO is responsible for the corporation's accounting and financial structure and activities. The CFO usually reports to the CEO.
Gross Working Capital :	Gross Working Capital includes total Current Assets.
Sole Proprietorship :	A sole proprietorship is a business owned and operated by one individual.
Pure Play :	Company that operates almost entirely in only one industry or line of business.
Put-Call Parity :	Relationship that exists between the price of a call option and the price of the corresponding put option.
Relevant Cash Flows :	The specific cash flows that should be considered in a capital budgeting decision.
Required Rate of Return (ks) :	The minimum rate of return on a common stock that a stockholder considers acceptable.
Retained Earnings :	That portion of the firm's earnings that has been saved rather than paid out as dividends.
Return on Common Equity (ROE) :	The ratio of net income to common equity; measures the rate of return on common stockholders' investment.

Return on Total Assets (ROA) :	The ratio of net income to total assets.
Revolving Credit Agreement :	A formal, committed line of credit extended by a bank or other lending institution.
Risk :	In a financial market context, the chance that an investment will not provide the expected return.
Risk-Seeking Investor :	One who prefers risk.
Sales Forecast :	A forecast of a firm's unit and dollar sales for some future period; it is generally based on recent sales trends plus forecasts of the economic prospects for the nation, region, industry, and so forth.
Secondary Market :	A Market in which securities and financial assets are traded among investors after they have been issued by corporations. In other words, market where previously issued securities are traded.
Statement of Cash Flows :	A statement reporting the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
Stock Dividend :	A dividend paid in the form of additional shares of stock rather than in cash.
Sunk Cost :	Cost that has already been incurred and is irrelevant to future decision making.
Temporary Current Assets :	Current assets that fluctuate with seasonal or cyclical variations in sales.
Trend Analysis :	An analysis of a firm's financial ratios over time; used to estimate the likelihood of improvement or deterioration in its financial situation.
Target Company :	Object of a takeover bid.
Tax Loss Selling :	Investment strategy in which the tax rules make it attractive

	for an investor to sell certain shares just before the end of the tax year.
Terminal Value of a Contract :	The value, as at the date of the final cash flow promised in a financial contract, that is equivalent to the stream of promised cash flows.
Tests for Private Information :	Research method that tests whether systematic profits can be generated by making investment decisions on the basis of private information.
Theoretical Ex-rights Share Price :	The expected price of one share when shares begin to be traded ex-rights theoretical rights price the expected price of one right calculated on the basis of the cum-rights share price.
Time Value of an Option :	Value of an option in excess of its intrinsic value.
Company :	A company is, in general, any group of persons united to pursue a common interest. The term is thus synonymous with association, but more often it is used specifically to identify associations formed for profit, such as the partnership, the joint-stock company, and the for-profit corporation. A company is not necessarily a corporation, and thus may not have a separate existence from its members.
Abnormal Returns :	Returns greater or less than that which the market expects for a security.
Acceptor :	In a Bill of Exchange, the party agreeing to pay the holder the bill's face value on the maturity date; usually a bank or other financial institution. Also known as the drawer.
Accounts Payable :	Sum of money owed by a purchaser as a result of having bought goods or services on credit. Also known as creditors.
Accounts Receivable	Where a company borrows funds and pledges its accounts

Financing :	receivable as security for the loan.
Accumulation :	This is the process by which, through the operation of interest, a present sum becomes a greater sum in the future.
Annuity :	Series of cash flows of equal amount equally spaced in time.
Annuity Due :	Annuity, in which the first cash flow is to occur 'immediately' (i. e. on the valuation date)
Arbitrage :	Buying an asset and simultaneously selling it for a higher price, usually in another market, so as to make a risk-free profit.
Arbitrage Pricing Model :	Model of asset pricing that describes the risk premium for a risky asset as a linear combination of various risk factors.
At Call :	Money repayable immediately, at the option of the lender.
Accounting Rate of Return (ARR) :	Expresses the profit generated by an investment or project as a percentage of the capital invested.
Capital Asset Pricing Model (CAPM) :	A model in which the cost of capital for any security or portfolio of securities equals the riskless rate plus a risk premium that is proportionate to the amount of systematic risk of the security or portfolio.
Bad Debts :	Accounts that have proven to be uncollectible and are written off.
Bank Bill :	Bill of exchange that has been accepted or endorsed by a bank.
Bankruptcy costs :	Direct or indirect costs associated with financial difficulty that leads to control of a company being transferred to lenders.
Basis :	Spot price at a point in time minus the futures price (for delivery at some later date) at that point in time.
Bearer Security :	Security whose ownership is not registered by the issuer

	and possession of the physical document is primary evidence of ownership.
Benefit-Cost Ratio :	Index calculated by dividing the present value of the future net cash flows by the initial outlay (also known as a profitability index).
Beta :	Measure of a security's systematic risk, describing the amount of risk contributed by the security to the market portfolio.
Bill Acceptance Facility :	Agreement in which one entity (normally a bank) undertakes to accept bills of exchange drawn by another entity (the borrower).
Bill Discount Facility :	Agreement in which one entity (normally a bank) undertakes to discount (buy) bills of exchange drawn by another entity (the borrower).
Book-to-Market Effect :	Observation that, even after adjusting for beta risk, there is a relationship between share returns and book-to-market ratios.
Account Receivable :	A balance due from a customer.
Accounting Profit :	A firm's net income as reported on its income statement.
Accruals :	Continually recurring short-term liabilities, especially accrued wages and accrued taxes.
Agency Problem :	A potential conflict of interest between the agent (manager) and (1) the outside stockholders or (2) the creditors (debt holders).
Aging Schedule :	A report showing how long accounts receivable have been outstanding.
Annual Report :	A report issued annually by a corporation to its stockholders. It contains basic financial statements, as well as management's opinion of the past year's operations and the firm's future prospects.

Asset Management Ratios :	A set of ratios which measure how effectively a firm is managing its assets. Also called Asset Utilization Ratios.
Balance Sheet :	A statement of the firm's financial position at a specific point in time.
Bond :	A long-term debt instrument.
Breakeven Point :	The volume of sales at which total costs equal total revenues, causing operating profits (or EBIT) equal to zero.
Business Risk :	The risk associated with projections of a firm's future returns on assets.
Call Option :	An option to buy, or "call," a share of stock at a certain price within a specified period.
Call Provision :	A provision in a bond contract that gives the issuer the right to redeem the bonds under specified terms prior to the normal maturity date.
Capital Budgeting :	The process of planning expenditures on assets whose cash flows are expected to extend beyond one year. In other words, the process of planning and managing a firm's long-term investments.
Capital Markets :	The financial markets for stocks and for long-term debt (one year or longer).
Cash Budget :	A table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period.
Cash Discount :	A reduction in the price of goods given to encourage early payment.
Check Clearing :	The process of converting a check that has been written and mailed into cash in the payee's account.
Clientele Effect :	The tendency of a firm to attract a set of investors who like its dividend policy.
Closely Held Corporation :	A corporation that is owned by a few individuals who are

	typically associated with the firm's management.
Collection Policy :	The procedures that a firm follows to collect accounts receivable.
Collections Float :	The amount of checks that we have received but which have not yet been credited to our account.
Commercial Paper :	Unsecured, short-term promissory notes of large firms, usually issued in denominations of $100,000 or more and having an interest rate somewhat below the prime rate.
Common Stockholders' Equity :	Also known as Net Worth. The capital supplied by common stockholder-capital stock, paid-in capital, retained earnings and, occasionally, certain reserves. Total equity is common equity plus preferred stock.
Compensating Balance :	A bank balance that a firm must maintain to compensate the bank for services rendered or for granting a loan.
Convertible Bond :	A bond that is exchangeable, at the option of the holder, for common stock of the issuing firm.
Convertible Currency :	A currency that may be readily exchanged for other currencies.
Convertible Security :	A security, usually a bond or preferred stock, that is exchangeable at the option of the holder for the common stock of the issuing firm.
Corporate Bonds :	Bonds issued by corporations.
Corporation :	A legal entity created by a state, separate and distinct from its owners and managers, having unlimited life, easy transferability of ownership, and limited liability.
Credit Period :	The length of time for which credit is granted.
Credit Policy :	A set of decisions that include a firm's credit period, credit standards, collection procedures, and discounts offered.
Credit Terms :	A statement of the credit period and any discounts offered--

for example, 2/10, net 30.

Current Ratio :	This ratio is calculated by dividing current assets by current liabilities. It indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in the near future.
Days Sales Outstanding (DSO) :	The ratio calculated by dividing accounts receivable by average sales per day; indicates the average length of time the firm must wait after making a sale before receiving cash. OR The average length of time required to collect credit sales.
Debenture :	A long-term bond that is not secured by a mortgage on specific property.
Declaration Date :	The date on which a firm's directors issue a statement declaring a dividend.
Depreciation :	The charge for assets used in production Depreciation is not a cash outlay.
Dividend Policy Decision :	The decision as to how much of current earnings to pay out as dividends rather than to retain for reinvestment in the firm.
Du Pont Chart :	A chart designed to show the relationships among return on investment, asset turnover, the profit margin, and leverage.
Dividend :	an amount paid to shareholders from a company's after-tax earnings.
Earnings Per Share (EPS) :	Net income divided by the number of share of common Stock outstanding.
Economic Value Added :	Value added to shareholders by management during a given year.
Economic Order Quantity (EOQ) :	An inventory model that determines how much to order by determining the amount that will meet customer service levels while minimizing total ordering and holding costs.

Effective Annual Rate (EAR) : The annual rate of interest actually being earned, as opposed to the quoted rate. Also called the "equivalent annual rate."

Exchange Rate : The number of units of a given currency that can be purchased for one unit of another currency.

Expected Rate of Return : The rate of return on a common stock that a stockholder expects to receive.

Financial Leverage : The extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.

Financial Risk : An increase in stockholders' risk, over and above the firm's basic business risk, resulting from the use of financial leverage.

Financial Service Corporation : A firm which offers a wide range of financial services, including investment banking, brokerage operations, insurance, and commercial banking.

Fixed Assets Turnover Ratio : The ratio of sales to net fixed assets

Fixed Charge Coverage Ratio : This ratio extends the TIE ratio to include the firm's annual long-term lease and sinking fund obligations.

Fixed Exchange Rate System : The world monetary system in existence after World War II until 1971, under which the value of the U.S. dollar was tied to gold, and the values of the other currencies were pegged to the U.S. dollar.

Floating Exchange Rates : A system under which exchange rates are not fixed by government policy but are allowed to float up or down in accordance with supply and demand.

Flotation Cost : The percentage cost of issuing new common stock. Also known as Issue Cost.

Free Trade Credit : Credit received during the discount period.

Float : The number of shares outstanding and available for trading

	by the public.
Going Public :	The act of selling stock to the public at large by a closely held corporation or its principal stockholders.
Growth Rate :	The expected rate of growth (g) in dividends per share.
Hedging :	Using transactions to lower risk.
Holding Company :	A corporation that own sufficient common stock of another firm to achieve working control over it.
Hurdle Rate :	The discount rate (cost of capital) which the IRR must exceed if a project is to be accepted
Internal Rate of Return (IRR) :	The discount rate which forces the PV of a project's inflows to equal the PV of its costs.
Average Accounting Return (AAR) :	A measure of the return on an investment over a given period, equal to (average projected earnings - taxes) / average book value over the duration of the investment.
Income Statement :	A statement summarizing the firm's revenues and expenses over an accounting period, generally a quarter or a year.
Incremental Cash Flow :	The net cash flow attributable to an investment project.
Indenture :	A formal agreement between the issuer of a bond and the bondholders.
Bond Indenture :	A contract between a bond issuer and a bond purchaser that specifies the terms of a bond.
Inflation :	The tendency of prices to increase over time.
Inflow :	A cash receipt.
Information Content (Signaling) Hypothesis :	The theory that investors regard dividend changes as signals of management's earnings forecasts. .
Initial Public Offering (IPO) Market :	The market consisting of stocks of companies that are in the process of going public.
Interest Rate Risk :	The risk of capital losses to which investors are exposed because of changing interest rates.

Interest :	A fixed charge for borrowing money. Usually a percentage of the amount borrowed.
Internal Rate of Return (IRR) Method :	A method of ranking investment proposal using the rate of return on an investment, calculated by finding the discount rate that equates the present value of future cash inflow s to the project's cost.
Inventory Turnover Ratio :	The ratio calculated by dividing sales by inventories.
Investment Banking House :	An organization that underwrites and distributes new investment securities and helps businesses obtain financing.
Investment :	Money that is invested with an expectation of profit.
Joint Venture :	A corporate alliance in which two or more independent companies combine their resources to achieve a specific, limited objective.
Junk Bond :	A high-risk, high-yield bond.
Just-in-Time (JIT) System :	A system of inventory control in which a manufacturer coordinates production with suppliers so that raw materials or components arrive just as they are needed in the production process.
Cross-Border Lease :	Finance lease, usually leveraged, where the lesser and lessee are located in different countries.
Debt :	Financial contract in which the receiver of the initial cash (the borrower) promises a particular cash flow, usually calculated using an interest rate, to the provider of funds (the lender).
Default Risk :	The chance that a borrower will fail to meet obligations to pay interest and principle as promised.
Default Risk Structure of Interest Rates :	Relationship between default risk and promised yield on debt, for a given term to maturity.
Deferred Annuity :	Annuity in which the first cash flow is to occur after a time

	period that exceeds the time period between each subsequent cash flow.
Delinquent Accounts :	Accounts where payment has not been made by the due date.
Disclosure Document :	Prospectus, profile statement or offer information statement that must be supplied to potential investors to provide information about an offer of securities.
Discounted Cash Flow (DCF) Methods :	Those which involve the process of discounting a series of future net cash flows to their present value.
Discounter :	Initial purchaser of a short-term debt security such as a promissory note or a bill of exchange.
Discount Period :	Period during which a discount for prompt payment is available to the purchaser.
Discount Rate :	Expression of the price reduction a purchaser will receive if payment is made within the discount period.
Divestiture :	Sale of a subsidiary, division or collection of related assets, usually to another company.
Dividend Clienteles :	Groups of investors who choose to invest in companies that have dividend policies which meet their particular requirements.
Dividend Drop-Off Ratio :	Ratio of the decline in the share price on the ex-dividend day to the dividend per share.
Dividend Election Schemes :	Arrangements which offer shareholders the option of receiving their dividends in one or more of a number of forms.
Dividend Payout Ratio :	Percentage of profit paid out to shareholders as dividends.
Capital Gain :	An increase in the value of an asset such as stocks, bonds, mutual funds and real estate between the time the asset was purchased and the time the asset was sold.

Dividend Reinvestment Plan :	Arrangement made by a company which gives shareholders an option of reinvesting all or part of their dividends in additional shares in the company, usually at a small discount from market price.
Dividend-Yield Effect :	Observation that, even after adjusting for beta risk, there is a relationship between share returns and dividend yields.
Financial Agency Institution :	Arranges or facilitates the direct transfer of funds from lenders to borrowers.
Free Cash Flow :	Cash generated by a business that cannot be invested profitably in its existing line of business.
General Annuity :	Annuity in which the frequency of charging interest does not match the frequency of payment; thus, repayments may be made either more frequently or less frequently than interest is charged.
Inventory :	A company's merchandise, raw materials, and finished and unfinished products which have not yet been sold.
Inventory Management :	Controlling stock levels within the physical distribution function to balance the need for product availability against the need for minimizing stock holding and handling costs.
Bill of Exchange (BOE) :	Marketable short-term debt security in which one party (the drawer) directs another party (the acceptor) to pay a stated sum on a stated future date.
Book-to-market Ratios :	Book value of a company’s equity divided by market value of the company’s equity.
Bridging Finance :	Short-term loan, usually in the form of a mortgage, to cover a need normally arising from timing differences between two or more transactions.
Bubble :	Period in which prices rise strongly, departing from their ‘true value’, frequently followed by a sudden decrease in prices.

Buy-and-Hold Policy :	Investment strategy in which shares are bought and then retained in the investor's portfolio for a long period.
Buy out or Going-Private Transaction :	Transfer from public ownership to private ownership of a company through purchase of its shares by a small group of investors which usually includes the existing management.
Call Options on a Futures Contract :	Option that gives the buyer the right to enter into the futures contract as a buyer at a predetermined price.
Capital Structure :	Mix of debt and equity finance used by a company.
Capital Rationing :	A condition where a firm has limited resources available for investment.
Certainty-Equivalent :	Approach that incorporates risk by adjusting the cash flows rather than the discount rate.
Co-operation Factoring :	Factoring agreement under which the factor and the company share responsibility for managing the company's debtors.
Covered Interest Arbitrage :	Movement of funds between two currencies to profit from interest rate differences while using forward contracts to eliminate exchange risk.
Dividend Growth Model :	Model expressing the value of a share as the sum of the present values of future dividends where the dividends are assumed to grow at a constant rate.
Drawer :	The party who issues an order, draft, check or bill of exchange.
Duration :	Measure of the time period of an investment in a bond or debenture that incorporates cash flows that are made prior to maturity.
Efficient Market Hypothesis :	That the price of a security (such as a share) accurately reflects the information available.
Endorsement :	Acceptance by the seller of a bill in the secondary market,

	of responsibility to pay the face value if there is default by the acceptor, drawer and earlier endorsers.
GAAP :	GAAP (Generally Accepted Accounting Principles) is the standard framework of guidelines for financial accounting. It includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.
Cash Inflow :	The cash flowing into the business from all sources over a period of time. It includes the sale of products, new loans received, sale of capital assets, and other income etc.
Cash Outflow :	The cash flowing out of the business from all sources over a period of time. It includes the purchase of production inputs, machinery, repayment of borrowed money, etc.
Solvency :	Solvency refers to the ability to meet maturing obligations as they come due. It is the ability of an entity to pay its debts with available cash.